

Utah Money Management Council

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MONEY MANAGEMENT COUNCIL MEETING
THURSDAY NOVEMBER 21, 2013
AT THE UTAH STATE TREASURER'S OFFICE
ROOM 180
3:00 PM

A G E N D A

1. APPROVAL OF THE MINUTES OF THE OCTOBER 17, 2013 MEETING
2. MONTHLY REPORTS
 - A) Division of Securities
 - B) Department of Financial Institutions
 - C) Deposit and Investment report update
 - D) Review of enforcement actions on financial institutions
3. REVIEW OF PROPOSED RULES
4. COUNCIL NEWSLETTER
5. OTHER BUSINESS
6. SCHEDULE NEXT MEETING

In compliance with the Americans with Disabilities Act, individuals needing special accommodations during this meeting should notify Kathy Wilkey, Administrative Assistant, at Room 180 State Capitol Building, (801) 538-1468.

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STATE MONEY MANAGEMENT COUNCIL-MINUTES
THURSDAY OCTOBER 17, 2013

The regular meeting of the State Money Management Council was held in the Offices of the State Treasurer, 350 North State Street, Suite 180 at 3:00 p.m., Thursday, October 17, 2013. In attendance were:

Mark McRae, Chair
Mark Watkins
John Bond
Kirt Slauch
Doug DeFries
David Damschen, Deputy State Treasurer
Tom Bay, Department of Financial Institutions
Michele Black, Securities Division
Laurie Noda, Asst. Attorney General
Mel Smith, University of Utah
Scott Burnett, Zions Wealth Asset Management
Diane Veltri, Zions Wealth Asset Management
Andy Robbins, Moreton Asset Management

Minutes of September Meeting

The minutes of the September 17, 2013 meeting were approved unanimously.

Monthly Reports

Securities Division:

Ms. Black presented Certified Broker Dealer report. She noted that RBC Capital added two agents and there is a new firm, BNP Paribas with five agents. Council reviewed the lists briefly.

Financial Institutions' Report:

Mr. Bay then reviewed the monthly report as of September month end with nothing unusual to report. He noted that Gunnison Valley Bank's allotment use is consistently high and this month they are at 99% of their allotment. Council discussed this briefly.

Late Deposit and Investment Report Update:

Mr. McRae noted for the Council that there are 45 reports that have not been filed for the June 2013 reporting period. He noted to the Council that the list has gone over to the State Auditor's office to begin the process of holding on entities that have not reported. Council reviewed the report briefly and asked to have a report that shows the entities last report date for the next meeting.

Review of Enforcement Actions:

Mr. Damschen informed the Council that there were no new enforcement actions since the last meeting.

Acceptance of Reports:

It was motioned and seconded, and all of the above reports were accepted unanimously.

Update of Progress made on Rule Drafting

Mr. Watkins reviewed the draft of Rule 20 noting that the document in the packet was cleaned up from the last discussion. Mr. Smith had noted that the University had a question in paragraph 5 regarding the rating requirement of the country and the term “domiciled”. Mr. Watkins noted that even if the country had a “B” rating, there could be a financial institution that had an “A” rating in a country that does not meet the criteria. Council discussed this and agreed that the flexibility should be added in the language that may allow the use of a financial institution that meets the criteria in a country that does not meet the criteria if the Council approves it.

Mr. Damschen then noted that there was a rough draft of language for them to work on and review that had been provided by Ms. Pedroza. Mr. Damschen noted that he had reviewed and discussed this with Mr. Bay and with Promontory regarding reporting. Mr. Bay did note that there could be a SAS 7 requirement in place and he would check and see if it would be something that could be added to the language. Council discussed this at length. Mr. Slaugh noted that one of his concerns is liquidity should the issuer of the CD fail. It was noted in the following discussion that if a bank fails then the FDIC pays out immediately on insured funds. It was also noted that at least one provider has credit criteria for the financial institutions that participate in their program. Mr. McRae then asked that the rules be ready for approval in the next meeting, and will inquire how close the time frame for filing was.

Other Business

Mr. McRae then asked the presenters at the UMTA training today how the presentations went and Mr. Watkins and Mr. Bond updated the Council on the meeting.

Schedule Next Meeting

The Council then scheduled the next meeting for November 21, 2013 at 3:00 p.m. in the offices of the State Treasurer. With no other business before the Council, they adjourned at 4:20 p.m.

6/30/13
Late D&I reports
As of
11/21/13

Antimony Cemetery 6/10
East Garland Cemetery 6/11
Garden City Cemetery 6/12
Penrose Cemetery 6/12
So Summit Cemetery 12/12
Willard Cemetery 12/08

Carbon Co Housing Auth 6/11

Beaver Co Waste Mgt SSD#5 12/12
Beaver Dam Village SS Dist 12/10 but filed 12/12
Duchesne Co SS Dist #2 12/12
Garfield Co SS Dist #1 12/12
Iron Co SS Dist #3 12/12
Pinon Forest SS Dist 12/12
Summit SS Dist 12/12
Weber Human Services 12/12
West Erda Imp Dist 6/11
White Hills SS Dist 12/08

Leeds Town 12/12
Mantua Town 12/12

Utah College of Applied Tech 12/12

Bluff Waterworks SS Dist 6/12
Box Elder Co Serv Area #2 filed 6/12 but prior
12/10
Perry City Flood Control 6/12
Bristlecone Wtr Imp Dist 6/12
Cache Co Drain Dist #6 12/12
E Duchesne Culinary Wtr Imp Dist 6/11
East Lewiston Drain Dist #4 12/12
Hansel Valley WtrShd Dist 12/12
Iowa String Drain Dist 6/12
Lake Shore & Benjamin Drain Dist 6/10
Mapleton Irrigation Co 6/11
Millard Co Drain Dist #4 filed a 12/11 but before that
12/09
Rush Valley Wtr Dist 12/12

Liberty Academy 12/12
Tuacahn High School 6/11

*List all checking accounts, savings accounts, certificates of deposit, PTIF accounts, and other investments held as of the reporting date. (ON BANK BALANCES, PLEASE LIST \$ AMOUNT OFF OF BANK STATEMENT). !!Please read instruction sheet for more help!!

Total=\$

Salt Lake City, UT 84114-2315
Or by e-mail to: mmcouncil@utah.gov

R628-Money Management Council

R628-20 Foreign Deposits for Higher Education Institutions

R628-20-1. Purpose.

To provide guidelines to higher education institutions when depositing funds in foreign countries.

R628-20-2. Authority.

This rule is issued pursuant to Section 51-7-17(4)(a) and Section 53B-7-601.

R628-20-3. Scope.

This rule relates to funds of higher education institutions that are either required by law of a foreign country to be deposited in the foreign country or are required by the terms of a grant, gift, or contract to be deposited in the foreign country.

R628-20-4. Definitions.

(1) The following terms are defined in Section 51-7-3 of the Act and when used in this rule have the same meaning as in the Act:

- (a) "Council";
- (b) "Nationally Recognized Statistical Rating Organization" or "NRSRO".

(2) For purposes of this rule "FDI" means foreign depository institution as defined in Section 7-1-103 of the Utah Code.

R628-20-5. Requirements for Deposits.

(1) To be qualified for deposit under Section 53B-7-60 the FDI shall:

- (a) be insured or otherwise have a similar protection if that country does not technically provide insurance;
- (b) be rated "A" or better by one NRSRO; and
- (c) be domiciled in a country in which the sovereign debt rating is "A" or better by the NRSRO.

R628-20-6. Prohibited Deposits.

(1) Use of FDIs in any country or territory described below is prohibited.

- (a) Countries subject to sanctions by the Office of Foreign Assets Control (OFAC); and
- (b) Countries and territories on the Financial Action Task Force's (FATF) list of high risk and non-cooperative jurisdictions.

(2) Financial Crimes Enforcement Network (FinCEN) advisories must be reviewed by the higher education institution to ensure that potential anti-money laundering and counter-terrorist financing risks associated with any country are assessed, identified and avoided before establishing deposits in the FDI.

(3) The FDI may not be listed on the U.S. Treasury's Specially Designated Nationals (SDN) list.

R628-20-7. Approval by the Council.

- (1) The Council must approve the FDI.
- (2) Prior to approval by the Council, the higher education institution must present to the Council the reasoning and purpose for the use of a FDI.
- (3) Upon review of such reasoning and purpose, the Council will decide whether to give final approval to allow funds to be deposited in the FDI.
- (4) The Council may approve an FDI that does not otherwise fall within the requirement of R628-20-5 when other facts make it reasonably prudent to do so.
- (5) In approving an FDI, the Council may place restrictions on the use of the FDI when the Council determines it would be reasonably prudent to do so.
 - (a) It is the responsibility of the higher education institution to monitor any restriction placed on the FDI and if violated, to notify the Council of the issue within 30 days of the violation and provide a plan of action in regards to the violation.

R628-20-8. Reporting by Higher Education Institutions of Foreign Deposits.

- (1) The higher education institution shall file a written report with the Council on or before July 31 and January 31 of each year containing the following information for deposits held on June 30 and December 31 respectively:
 - (a) Total market value of the deposit account which will include previous historical ending balances (up to 3 years);
 - (b) Total market value of uninsured deposits in the deposit account, which will include previous historical ending balances (up to 3 years);
 - (c) Debt rating of the FDI; and
 - (d) Debt rating of the country in which the FDI is located.

R628. Money Management Council

R628-21. Conditions and Procedures for the use of Reciprocal Deposits

R628-21-1. Authority

This rule is issued pursuant to Section 51-7-17(4)(b) and 51-7-18(2)(b)

R628-21-2. Scope

This rule applies to all public treasurers who purchase reciprocal deposits and to all qualified depositories providing reciprocal deposits.

R628-21-3. Purpose

The purpose of this rule is to establish requirements for the investing of public funds in reciprocal deposits.

R628-21-4. Definitions

For purposes of this rule the following terms are defined in Section 51-7-3 of the Act and when used in this rule have the same meaning as in the Act:

1. Council;
2. Commissioner;
3. Public funds;
4. Public treasurer;
5. Qualified depository, and;
6. Reciprocal deposits.

R628-21-5. General Rule

1. A public treasurer may invest public funds in reciprocal deposits only through qualified depositories that use a deposit account registry service. The public funds placed with a qualified depository into reciprocal deposits does not apply towards the maximum public funds allotment for that qualified depository as described in R628-11.

2. Reciprocal deposits may only be initiated by qualified depository institutions and then re-deposited through a deposit account registry service as follows:

- a. in one or more FDIC insured depository institutions in amounts up to the relevant FDIC-insured deposit limit for a depositor in each depository institution; and
- b. in exchange for reciprocal FDIC-insured deposits made through the deposit account registry service to the qualified depository.

R628-21-6. Limitation on use of reciprocal deposits

The maximum amount of any public treasurer's portfolio that can be invested in reciprocal deposits shall be as follows:

1. Portfolios of \$10,000,000 or less may not invest more than 10% of the total portfolio in reciprocal deposits.
2. Portfolios greater than \$10,000,000 but less than \$20,000,000 may not invest more than \$1,000,000 in reciprocal deposits.

3. Portfolios of \$20,000,000 or more may not invest more than 5% of the total portfolio in reciprocal deposits.

R628-21-7. Insurance requirements for a deposit account registry service

A deposit account registry service shall provide the public entity with proof of errors and omissions coverage equal to five percent of Utah public funds under management but not less than \$1,000,000 nor more than \$10,000,000 per occurrence.

R628-21-8. Reporting requirements

1. A public entity shall file a written report with the Council of reciprocal deposits on or before July 31 and January 31 of each year for deposits held on June 30 and December 31 respectively.
2. Within 10 days of the end of each month, each qualified depository institution holding reciprocal deposits on behalf of public treasurers shall file a report with the Commissioner of the total month-end amount of Utah public funds in reciprocal deposits initially deposited into the qualified depository institution and currently re-deposited in one or more FDIC insured depository institutions.

The MMC Times

October 1, 2013

Volume 10, Page 1

In this edition of the newsletter you will find some help in filling out the deposit and investment report based on reports received from this last report period, a note about securities and the markets and a news update from UAPT.

Reporting clarifications

In reviewing the reports filed for the June 2013 reporting period, here are a few notes that may make it a little easier for some of you on future reports. Others, it may be a bit more work! Sorry! Ok, to start with, you don't need to send in copies of your bank account statements or PTIF statements, it will save you time copying and us time blacking out your account numbers. In some instances such as Investment Adviser statements, please provide the page that reflects what is in your account at the end of the reporting period, we don't need to see your interest payments, maturities etc. The summary page detailing your earnings and adviser fees should also be provided. This may sound a bit silly, but before you send your report off, make sure you put your entity name at the top. With over 800 reports coming in it slows me down to try and identify an entity by the person who signed the form. If you submit your report by e-mail, do not send an additional copy by regular mail, it just goes in the recycle bin. If within 24-48 hours, you do not receive a return e-mail stating that your report has been received, check your junk or spam account, then the address you sent it to, THEN call! I occasionally do miss an e-mail. Some folks have expressed frustration about filling out a form by hand. The form is mailed out as an FYI of what is needed to be reported. You are more than free to create a form in either a word processing or spreadsheet format, as long as it has the information requested on the report form provided. As mentioned before, you can

also contact me and I can send you by e-mail either a word document or excel spreadsheet that has been formatted to resemble the form that is mailed.

This is more for those of you who purchase securities either through a certified investment adviser (Adviser) or direct with a certified broker dealer (Broker). Hopefully this will clarify what information the Council needs to receive to be able to do their job of verifying that public entities are in compliance with the Money Management Act and Rules of the Council. The report form that is provided to you requests the name of the security, the rate on the security, maturity date, purchase date par value, a current market value, the fund on your books to which this investment is assigned and the broker/agent that the trade was done with.

The Council requests that you send in the broker confirm on all trades. This allows us to verify that the trades are done with Certified Brokers. The Act allows the Council to request this information in 51-7-18.2. Also, there are two Council rules that provide instruction to public treasurers and their Adviser regarding reporting to the public treasurer, it is recommended that you review them. Additionally, there are SEC regulations for both Brokers and Advisers to provide confirmations to their customers on a timely basis.

Rule 15 requires an Adviser to trade for the public entity with a Certified Broker, and provide copies of all trade confirmations for transactions in the account, a summary of all transactions completed during the reporting period and a listing of all securities in the portfolio at the end of each reporting period, not less than once each calendar quarter and as often as requested by the public treasurer.

Confirmations have to be from either the Adviser or the Broker, not from a third party safekeeping agent. They should also show the name of the agent who the trade was done with.

Rule 19 requires you to provide the detail of the investments you purchase through an Adviser to the Council. In addition to the detail of the investments, Council asks that you provide them with a copy of that confirm on a purchase or a sale. Please do not send a copy of a maturity on an investment. You only need to send a copy of the trade once when it shows on your report, after that if it is reflected on the following reporting period you do not need to provide another copy. If there are purchases and sales of the same security in between report periods please send those confirms, even if they are not reflected on the report.

A reminder that although you turn funds over to an Adviser to purchase for your entity, you are still ultimately responsible to verify that the securities purchased meet all criteria of the Act and Rules of the Council. You should be reviewing your confirms and statements frequently.

Market Notes

We seem to harp continually on this but we are in a very low interest rate environment and you need to weigh if paying a safekeeping fee for a security that is yielding only 20 basis points is worth investing at that rate. The yield earned on a short term security could end up being less than what would be realized by just leaving the funds in your bank account due to fees charged by the adviser. A note on securities: We have seen a possible issue where similarly named securities have different ratings, for instance, Verizon Communications no longer meets the rating criteria of "A" or better by 2 NRSRO's. But Verizon Wireless still has allowable ratings. Lastly, eventually interest rates will rise. When that happens those holding callable, longer term fixed rate securities may end up holding low yielding paper in a raising rate environment. Please be aware when purchasing your investments.

UAPT News



Treasurer's Academy U of U

When: October 14-18, 2013

Where: The University of Utah Sandy Campus

Why: 1) Learn from experts from the university, community, state and local agencies, and the private sector. 2) Relevant & timely discussion on topics that matter most to you as a public treasurer. 3) Gain skills to improve or expand your leadership knowledge & abilities. 4) Network with fellow Treasurers.

How: Visit

<http://continue.utah.edu/proed/treasurers> to register

Once in a Lifetime – 2014 National Conference in SLC, UTAH

Don't miss this once in a lifetime opportunity to attend the National Treasurer's Conference in your home state of Utah. The 2014 National Conference for APTUS&C will be held in Salt Lake City from July 27th – 30th.

The Utah Association of Public Treasurers will play a huge part in planning, organizing, and carrying out this historic event and you can be a part of it. We invite you to volunteer by contacting Elaine Openshaw by email at elaineo@payson.org. We sincerely would appreciate any help that you can give and would like to say thank you in advance for all of your efforts in making the upcoming National Conference the best conference ever!

State begins inquiry into county investments

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Investigators for the state Securities Division are taking a look at Bernalillo County's investments, according to the county.

Some of the county's top executives and commissioners have been interviewed, and the state also has requested information on county investment policies and its portfolio, county spokeswoman Tia Bland said Wednesday.



The state inquiry comes as the County Commission and County Treasurer Manny Ortiz are at odds over how the county is investing its tax revenue.

Commissioners and top county executives say too much of the county's cash is tied up in long-term investments and unavailable to pay daily bills. The county, for example, lost about \$758,000 in recent months when Ortiz sold bonds at a loss to cover expenses.

Ortiz maintains he's used his authority to invest wisely and generate millions in revenue for the county.

The state Securities Division regulates investment brokers and advisers. S.U. Mahesh, a spokesman for the division, confirmed Wednesday the agency is "conducting an inquiry in Bernalillo County."

But, he said, "We can't comment on any ongoing investigation as matter of policy to protect the integrity of the inquiry process."

County Commissioner Wayne Johnson said Wednesday he was interviewed by state investigators.

"It's unusual for a portfolio of almost \$300 million to be completely turned over in 18 months," Johnson said. "They seemed interested in the number of trades that were made and investments that were turned."

Johnson said he, too, is concerned about all the investment turnover, but he said it's not clear the activity was improper.

The **Journal** was unable to reach Ortiz on Wednesday. He has refused to attend commission meetings this month to discuss potential changes to the county's investment policy.

Instead, Ortiz has sent letters to the commission outlining his position.

He said he is using his legal authority to "prudently deposit and invest county funds" and will continue to do so. The county has realized \$3.5 million in investment income this year, Ortiz said.

Ortiz took office Jan. 1. Before that, he served as the county treasurer's investment officer.

Analysts hired by the County Commission have raised questions about the county's investment portfolio.

One firm that reviewed county investments, Jeffrey Slocum & Associates Inc., said the county faces "significant interest rate risk." That means some investments would see their value drop if interest rates go up.

Another adviser, RBC Global Asset Management, said the county's portfolio had a purchase cost of \$256 million on Sept. 13 but a market price of \$234 million three days later. That means the county would lose about \$22 million if it sold the entire portfolio, according to an analysis prepared by RBC last month.

The Slocum firm noted that the portfolio had "experienced over 100 percent turnover since May 2012."

Bland, the county spokeswoman, said that means "all investments within the portfolio as of September 2013" had been purchased since May 2012.

"All past purchased long-term investments were called or sold and replaced with newer long-term investments resulting in 100 percent turnover since May 2012," she said in a written statement.

Ortiz, in letters to the county, has said he has the freedom to select the best investments for the county, within policies approved by the commission. He said he has been diversifying the portfolio and will work with the commission to maximize return on investments, minimize risk and keep enough money easily accessible to pay bills.

Bland said County Manager Tom Zdunek, Deputy County Manager Teresa Byrd and "commissioners" had been interviewed by the state.

The Securities Division also requested information on the county's investment portfolio, current investment policy and any suggested changes to the policy.